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March 21, 2008

Mr. Mike Finnegan  
Acting, Mid-Pacific Regional Director  
Bureau of Reclamation  
2800 Cottage Way  
Sacramento, CA 95825

Subject: Follow-up on March 21, 2006 Letter Requesting the Development of an Administrative Action to Ameliorate Current CVP Cost Allocation Flaws

Dear Mr. Finnegan:

In January 2005, certain Central Valley Project (CVP) water and power contractors (Contractors) met with then Regional Director Rodgers to express concern that Reclamation had not completed a new CVP cost allocation study in compliance with Public Law 99-546 (COA). In response to the COA requirements, Reclamation had previously issued its May 2001 Central Valley Project Cost Allocation Study (Report). Reclamation has acknowledged that the Report did not constitute a new cost allocation study and has chosen to continue using the cost allocation formulae derived from an update implemented in 1975.

The Contractors contend that the Report does not meet the requirements of the COA and continue to believe that the cost allocation structure currently in use results in the inappropriate allocations of costs to the various CVP purposes.

The CVP Water Association and the Northern California Power Agency have a long history of working effectively with Reclamation to collaboratively resolve complex, and occasionally contentious, issues affecting CVP Contractors. It was in this spirit that we wrote to Mr. Rodgers on March 21, 2006, to initiate a process to address some of our long-standing concerns about Reclamation's current CVP cost allocation structure. In that letter, we did not request the initiation of a new cost allocation. ~~Instead, we requested the development of an administrative action to ameliorate the current cost allocation flaws through two targeted steps:~~

1. **Return to the 1970 Separable Cost Remaining Benefit (SCRB) cost allocation factors.** A short-form allocation was completed in 1975 to update the 1970 cost allocation study, but the benefits and alternative

costs for several of the project purposes were not updated in that short-form update. The principles of analyzing and treating all project purposes on a comparable basis, which is inherent in a SCRB allocation, were compromised in the 1975 short-form update. The 1975 update also incorporated unrealistic assumptions pertaining to both inflation factors and power costs. Finally, documentation available to validate the conclusions of the 1975 update is incomplete and inadequate.

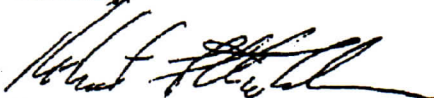
2. **Incorporate cost allocation adjustments required by the COA to reflect changes in CVP operations necessary to meet the State's water quality standards.** The COA establishes criteria for allocating costs associated with meeting State water quality objectives among all CVP project purposes. The Contractors' understanding of this legislation is that this language is inclusive of both the resource cost, water, and the financial costs associated with the resultant re-operation of the CVP. In the absence of a new SCRB, the Contractors believe that the most appropriate way to implement the COA requirement is to adjust the water supply sub-allocation to reflect the changes in operations necessary to meet the State water quality objectives.

These two steps are discussed further in the enclosed March 21, 2006 letter providing the *Central Valley Project Cost Allocation Administrative Proposal*.

To date, neither the CVP Water Association nor the Northern California Power Agency has received a response to our March 21, 2006 request. We believe a Reclamation response is long past due and hope to receive a response implementing our recommended adjustments shortly.

We look forward to working with you and your staff to resolve these issues.

Sincerely,



Robert F. Stackhouse, Executive Director  
Central Valley Project Water Association

Attachment: March 21, 2006 Letter to Kirk Rodgers with the enclosed *Central Valley Project Cost Allocation Administrative Proposal*.